

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 AGR-05

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R 030945Z JAN 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 9527

C O N F I D E N T I A L MANILA 0108

E.O. 11652: GDS

TAGS: ETRD, EAGR, RP

SUBJECT: COTTON CONTRACTS

REF: MANILA 15088

BEGIN SUMMARY: EMBASSY HAS FOLLOWED UP WITH DBP, CENTRAL BANK, NEDA AND DFA IN URGING GOP OFFICIALS TO UNDERTAKE POSITIVE STEPS IN ALLEVIATING CURRENT FINANCIAL DIFFICULTIES OF COTTON MILLS AND THUS ASSIST THEM IN OPENING OVERDUE LETTERS OF CREDIT FOR U.S. COTTON. WHILE CENTRAL BANK AND DFA WERE ENCOURAGING, RESPONSE FROM DBP AND NEDA WAS DISAPPOINTING. WE RECOMMEND THAT ASST SECRETARY YUETTER USE OCCASION HIS FORTHCOMING VISIT TO RAISE PROBLEM WITH GOP OFFICIALS. END SUMMARY.

1. IN FOLLOWING UP APPROACHED REPORTED REFTL, EMBASSY HAS ENCOUNTERED ENCOURAGING REACTION FROM WILLY SOLIVEN OF CENTRAL BANK AND CONSTANTINO ALVARADO OF DFA. SOLIVEN SAID THAT WHILE ADMINISTRATION OF CCC CREDIT LINE WAS IN HANDS OF DBP, CENTRAL BANK WAS WILLING TO USE ITS PERSUASIVE POWER TO GET DBP CONSIDERATION OF EXTENDING FULL 36 MONTH CREDIT TERM. SOLIVEN WAS WELL INFORMED OF COTTON CONTRACT PROBLEM AND SYMPATHETIC TO PLIGHT OF U.S. SHIPPERS.

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DFA, SEPARATELY, HAS WRITTEN TO DBP, URGING DBP TO EXTEND

FULL CREDIT TERMS AS PROVIDED UNDER US/RP AGREEMENT ON CCC LINE.

2. COMATT AND ASST AGATT CALL ON DR. JAIME LAYA, DEPUTY DIRECTOR OF NEDA, WAS DISAPPOINTING. DR. LAYA SAID THAT IT WOULD NOT BE POSSIBLE TO EVEN CONSIDER WAIVING OF DUTIES AND TAXES AS A MEANS OF RESOLVING PROBLEM BECAUSE THESE DUTIES AND TAXES ARE IMPORTANT SOURCE OF REVENUE. HE RECOGNIZED SIGNIFICANCE AND MAGNITUDE OF PROBLEM TO THE PHILIPPINE TEXTILE INDUSTRY AND SUGGESTED THAT WE SHOULD CONCENTRATE OUR EFFORTS ON DBP RATHER THAN IN CUSTOMS AND REVENUE AREA. EMBOFFS POINTED OUT THAT GOP HAD ON A REGULAR BASIS WAIVED IMPORT DUTIES ON RICE AND CORN IMPORTS OVER THE PAST SEVERAL YEARS AND THAT MORE RECENTLY GOP HAS ESTABLISHED A POLICY OF WAIVING THE IMPORT DUTY ON WHEAT AS A MEANS OF LOWERING LANDED COST. DR. LAYA STRESSED, HOWEVER, THAT FOOD WAS A DIFFERENT AND NOT COMPARABLE SITUATION BECAUSE GOP FOLLOWS A POLICY OF CONTROLLING CERTAIN FOOD PRICES AND THAT WAIVING THE IMPORT DUTY ON THESE FOOD IMPORTS WAS CONSISTENT WITH GOP POLICY.

3. MEETING WITH ACTING DBP CHAIRMAN JOSE DE OCAMPO WAS MORE DISAPPOINTING. COMATT AND ASST AGATT, IN PRESENTING TALKING PAPER, SUGGESTED THAT EXTENSION OF FULL 36 MONTH CCC CREDIT TERMS WOULD MATERIALLY ASSIST IN GETTING MORE LETTERS OF CREDIT OPENED. OCAMPO REPLIED THAT MILLS IN EFFECT ALREADY GETTING MORE THAN INTENDED 36 MONTHS USE OF CREDIT SINCE ON AVERAGE MILLS WERE TWO YEARS IN ARREARS ON PREVIOUSLY EXTENDED CCC CREDIT. HE SAID THAT SOME MILLS WERE IN ARREARS AS FAR BACK AS 1968 LINE AND THAT PRIOR TO IMPACT OF CURRENT CRISIS THIS PAST JULY ABOUT 50 PERCENT OF MILLS WERE DELINQUENT ON OLD CCC DEBTS. HE ADDED THAT RIGHT NOW ONLY THREE MILLS ARE CURRENT IN REPAYMENTS ON CCC DEBTS.

4. WHEN ASKED TO RECONSIDER HIS POSITION AND EXTEND FULLY 36 MONTHS ON CURRENT CCC LINE, OCAMPO REPLIED THAT DBP COULD NOT AS THIS WOULD ONLY ENCOURAGE FURTHER DELINQUENCIES. HE FELT THAT ONLY THREE MILLS HAVE GOOD CASH FLOW POSITION AND POINTED OUT THAT DOMESTIC TEXTILE CONSUMPTION HAS

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FALLEN OFF MORE THAN 50 PERCENT AND THAT EXPORT MARKET VIRTUALLY DISAPPEARED. COMMENT: OCAMPO'S GLOOMY ASSESSMENT IS WORSE THAN WHAT WE HAVE HEARD, AND WHILE HE MAY HAVE INTENTIONALLY PAINTED SUCH PICTURE FOR BENEFIT OF EMBOFFS, MEETING UNDERLINED FAIRLY SERIOUS ECONOMIC STRAITS OF LOCAL MILLS.

5. IN VIEW OF ABOVE DEVELOPMENTS, FORTHCOMING VISIT

OF ASST SECRETARY OF AGRICULTURE YEUTTER APPEARS TIMELY
SINCE IT WOULD FURNISH OCCASION FOR HIM TO PRESS DBP
CHAIRMAN LEO VIRATA ON ADMINISTRATION AND FUTURE USE
OF CCC CREDITS.
SULLIVAN

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